

PEMBINA PIPE LINE LTD.



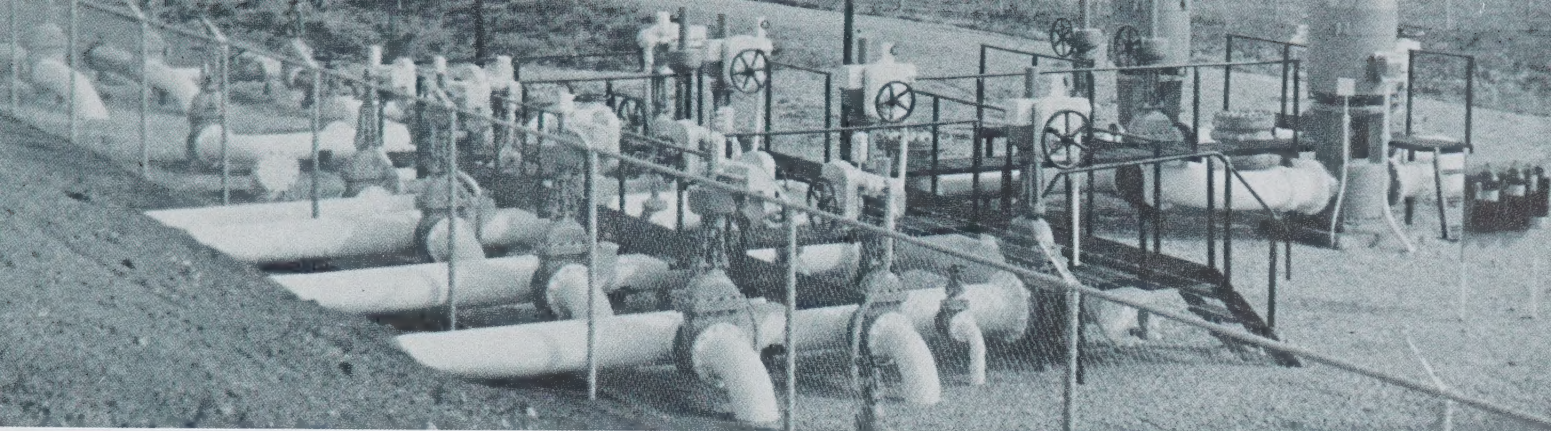
ANNUAL REPORT

1963



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PEMBINA PIPE LINE LTD.

HIGHLIGHTS OF 1963

(WITH COMPARISON FOR PREVIOUS YEARS)

	1963	1962	1961	1960	1959	1958	1957	1956	1955
Net income for									
the year	\$1,369,688	\$1,359,375	\$1,451,529	\$1,324,154	\$1,187,348	\$1,002,197	\$1,095,079	\$1,102,429	\$416,628
Earnings per com-									
mon share	80¢	79¢	85¢	77¢	68¢	56½¢	62¢	63¢†	20¢†
Average deliveries									
in barrels of oil									
per day	116,740	113,580	121,550	110,400	103,400	94,000	106,000	88,000	38,000
Wells									
— added in the									
year	195	257	252	490	425	612	526	857	685
— in total	4,341 *	4,146	3,889	3,640	3,150	2,725	2,113	1,587	730
Miles of pipeline									
built									
— in the year ..	30	51	57	56	85	49	148	153	152
— in total	844	814	763	706	650	565	543	395	242
Batteries connected									
— in the year ..	24	48	39	65	54	71	114	132	95
— in total	645	621	573	534	469	415	344	230	98
Batteries									
automated									
— in the year ..	65	— §	29	57	47	19	1	—	—
— in total	218	153	153	124	67	20	1	—	—

† 1955 and 1956 adjusted for subdivision of stock effective March 18, 1957 on a four for one basis.

* Includes 981 water injection wells and 35 gas injection wells drilled or converted from oil wells as part of the producers' programme of pressure maintenance in the Pembina Field. Production allowables for the injection wells are transferred to other oil wells.

§ Actually 23 batteries were automated, but 23 previously automated batteries were consolidated with existing batteries, thus the total number of batteries automated remained at 153.

PEMBINA PIPE LINE LTD.

Report of the Directors to the Shareholders

This report covers the ninth year of operations of Pembina Pipe Line Ltd.

During the year ended November 30, 1963 production of crude oil and related natural gas liquids in the Province of Alberta averaged 510,000 barrels per day. The throughputs in the Pembina system averaged 116,740 barrels per day or 23% of the Provincial production.

*Alberta
Production
and
Pembina's
Throughputs*

Although no firm targets have been set for crude oil production in 1964 under the National Oil Policy it has been estimated by the Minister of Trade and Commerce that average production in Canada should reach about 850,000 barrels per day. This would be an increase of approximately 9% over average production for 1963 and, since it appears reasonable to assume that the production in Alberta will be increased correspondingly, it is expected that further throughput increases will be obtained in the Pembina system this year. Under the proration system presently in effect in Alberta, however, the majority of this expected increase in production will be obtained from those fields having high maximum permissible rates of production rather than from fields such as Pembina which obtain a high proportion of their allowable production because of the economic allowable per well.

Earnings

Net earnings for 1963 amounted to \$1,369,688 compared with \$1,359,375 for 1962. After provision for preferred dividends, earnings in 1963 amounted to 80¢ per common share.

*Oil
Reserves*

In July of last year James A. Lewis Engineering Co. Ltd., Petroleum Reservoir Analysts of Calgary, Alberta, was engaged to study and report upon the estimated remaining reserves in oil fields served by your Company's pipe line system. Certain maxima and minima recoveries were indicated as being likely under varying conditions and, based upon the lower recovery estimates, there was stated to be in excess of one billion barrels remaining as at January 1, 1963.

*Extensions
to the
Gathering
Systems*

During the past year we constructed thirty miles of pipe line and installed pumping facilities for twenty-four new battery connections. In addition metering equipment to automate sixty-five existing batteries was installed. The most significant extension was the five-mile addition needed to service the production from the Cyn-Pem field which is adjacent to the northwest area of Pembina.

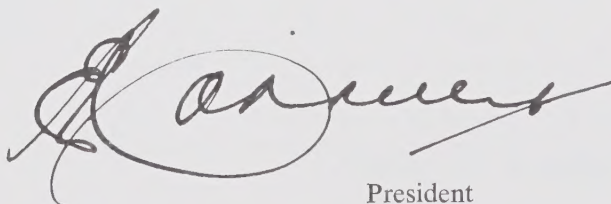
In the July 1963 interim report to the Shareholders it was stated that the alteration to the Company's objects together with the then proposed amendments to the Income Tax Act would enable the Company to benefit by the acquisitions of oil and gas reserves thus furthering the growth of your Company. In this connection, and prior to the end of the fiscal year, your Company purchased all of Asamera Oil Corporation's interests in the Etzikom gas field and in South Alberta Pipe Lines Ltd. This pipe line delivers gas through a 45 mile 10" pipe line from the Etzikom field to the plant of Northwest-Nitro Chemicals Ltd. and to the electric power plant of the City in Medicine Hat. Your Company will provide management services to South Alberta Pipe Lines Ltd. under a contract arrangement with that company.

*Acquisition
of Oil
and Gas
Interests*

Your management intends to pursue the policy of acquiring oil and gas properties in Canada in amounts and nature compatible with the basic pipe line operation.

Your directors wish to express their appreciation to all employees of the Company for their loyalty and continuing high standard of work which are so necessary to ensure the future growth of your Company.

By Order of the Board

A handwritten signature in dark ink, appearing to read 'D. Cameron', is written over a large, faint circular stamp. The signature is fluid and cursive.

President

February 17, 1964
Calgary, Alberta.

PEMBINA PIPE LINE LTD.

Production and Throughputs 1963

(WITH COMPARATIVE FIGURES FOR 1962)

FIELD PRODUCTION

The production from all fields for 1963 amounted to 42,611,000 barrels and the following table indicates the amount received from each field:

	1963	1962
Pembina	40,321,000	39,186,000
Willesden Green	1,945,000	2,131,000
Bigoray	186,000	141,000
Cyn-Pem	159,000	—
	<u>42,611,000</u>	<u>41,458,000</u>

MAIN LINE THROUGHPUTS

The above noted production was delivered through the trunk line facilities to the following delivery points in Edmonton:

	1963	1962
Interprovincial Pipe Line Co.	22,460,000	25,503,000
Trans Mountain Oil Pipe Line Company	7,431,000	10,228,000
Refineries at Edmonton	12,720,000	5,727,000
	<u>42,611,000</u>	<u>41,458,000</u>

Facilities Added in 1963

	PEMBINA	WILLESDEN GREEN	CYN-PEM	TOTAL
Miles of crude oil gathering lines constructed	13	12	5	30
New batteries connected	17	6	1	24
Batteries automated	54	11	—	65
New wells	142	36	17	195

PEMBINA PIPE LINE LTD.

Source and Application of Funds 1963

(WITH COMPARISON FOR PREVIOUS YEARS)

	1963	1962	1961	1960	1959
SOURCE OF FUNDS:					
Net earnings	\$1,369,688	\$1,359,375	\$1,451,529	\$ 1,324,154	\$1,187,348
Depreciation and amortization	1,493,609	1,373,726	1,398,997	1,205,887	1,023,760
Deferred income taxes	164,801	95,502	101,966	198,735	321,112
Debt discount amortized	26,915	28,629	32,412	32,350	34,146
Withdrawals from trustee	—	—	—	—	740,012
Other items (net)	—	994	80	9,617	(3,097)
	<u>\$3,055,013</u>	<u>\$2,858,226</u>	<u>\$2,984,984</u>	<u>\$ 2,770,743</u>	<u>\$3,303,281</u>

APPLICATION OF FUNDS:

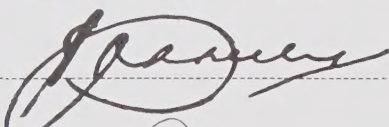
Additions to carrier property, land, leases, wells and other equipment (net)	\$1,389,171	\$1,244,984	\$1,390,647	\$ 1,651,540	\$1,716,802
Sinking fund requirements	1,330,000	1,182,000	1,149,500	1,117,000	1,107,762
Additional income taxes	—	3,093	—	141,980	—
Investment in wholly owned subsidiaries	—	—	—	423,000	100
Investment in bonds and shares of other companies	300,000	2,500	—	—	—
Advances to wholly owned subsidiaries (net) ..	100	56,517	(13,833)	(32,120)	69,817
Preferred dividends	79,188	83,580	86,692	89,393	94,043
	<u>\$3,098,459</u>	<u>\$2,572,674</u>	<u>\$2,613,006</u>	<u>\$ 3,390,793</u>	<u>\$2,988,524</u>

Increase (Decrease) in Working Capital	\$ (43,446)	\$ 285,552	\$ 371,978	\$ (620,050)	\$ 314,757
Working Capital (Deficit)	\$ (589,091)	\$ (545,645)	\$ (831,197)	\$ (1,203,175)	\$ (583,125)

ASSETS

	1963	1962
Fixed assets, at cost:		
Investment in carrier property, land, leases, wells and other equipment	\$31,740,854	\$30,414,908
Less accumulated depreciation	8,288,711	6,897,318
	23,452,143	23,517,590
Operating oil supply	482,191	482,191
	23,934,334	23,999,781
Investment in shares and advances to wholly-owned subsidiary companies:		
Investment in shares, at cost	22,600	22,600
Advances	79,480	79,380
	102,080	101,980
Investment in bonds and shares of other companies, at cost	302,500	2,500
Current assets:		
Cash	128,918	171,957
Accounts receivable:		
Shippers	506,709	521,228
Others	6,054	435
Materials and supplies, at cost	73,204	81,586
Deposits and prepaid expenses	31,194	54,764
Short term investments, at cost plus accrued interest	455,519	—
	1,201,598	829,970
Deferred charges:		
Unamortized discount on funded debt	145,743	172,658
Organization expenses	3,656	3,656
	149,399	176,314
Goodwill and other intangibles less amounts written off	699,156	738,147

Approved on behalf of the Board:

 , Director

 , Director

\$26,389,067

\$25,848,692

The accompanying notes form an

This is the balance sheet referred to in the report of Peat, Marw

30, 1963

FIGURES FOR 1962)

LIABILITIES

	1963	1962
Funded debt, less current maturities (Note 1)	\$ 9,574,500	\$10,829,500
Current liabilities:		
Accounts payable and accrued charges	1,137,510	191,071
Interest accrued on funded debt, net	1,662	226,925
Sinking fund payments due within one year, less bonds, debentures and preferred shares held by the company	207,500	315,350
Dividends payable on preferred shares, net	—	20,442
Income taxes payable, estimated, less payments	444,017	621,827
	1,790,689	1,375,615
Deferred taxes on income (Note 2)	2,511,620	2,346,819
Shareholders' equity:		
Capital stock:		
5% cumulative redeemable first preferred shares of a par value of \$50.00 each. Authorized 60,000 shares; issued 40,000 shares (Note 3)	2,000,000	2,000,000
Less shares redeemed — 1963 7,500 shares; 1962 6,000 shares	375,000	300,000
	1,625,000	1,700,000
Less sinking fund payment due within one year	75,000	75,000
	1,550,000	1,625,000
Common shares of a par value of \$1.25 each. Authorized 4,000,000 shares; issued 1,608,932 shares (Note 4)	2,011,165	2,011,165
	3,561,165	3,636,165
Capital redemption reserve fund	375,000	300,000
Paid-in surplus	70,835	70,835
Retained earnings (Note 5)	8,505,258	7,289,758
	12,512,258	11,296,758
	<u>\$26,389,067</u>	<u>\$25,848,692</u>

gral part of the financial statements.

Mitchell & Co., Chartered Accountants, dated December 23, 1963.

PEMBINA PIPE LINE LTD.

Statement of Earnings

Year ended November 30, 1963

(WITH COMPARATIVE FIGURES FOR 1962)

	1963	1962
Revenue from pipe line operations	\$6,289,811	\$6,397,433
Expenses:		
Operating	1,653,702	1,688,554
Directors' fees'	5,325	3,375
Depreciation and amortization	1,493,609	1,373,726
	<u>3,152,636</u>	<u>3,065,655</u>
Net earnings from operations	3,137,175	3,331,778
Miscellaneous charges (income) net:		
Interest on funded debt	508,800	579,435
Amortization of discount on funded debt	26,915	28,629
Dividend income	—	(9,291)
Profit on sinking fund operations	(27,445)	(22,298)
	<u>508,270</u>	<u>576,475</u>
Net earnings before taxes on income	2,628,905	2,755,303
Taxes on income:		
Current year	1,094,416	1,300,426
Future years (Note 2)	164,801	95,502
	<u>1,259,217</u>	<u>1,395,928</u>
Net earnings	<u>\$1,369,688</u>	<u>\$1,359,375</u>

The accompanying notes form an integral part of the financial statements.

PEMBINA PIPE LINE LTD.

Statement of Retained Earnings

Year ended November 30, 1963

Balance at November 30, 1962		\$7,289,758
Add net earnings year ended November 30, 1963		1,369,688
		8,659,446
Deduct:		
Dividend paid on 5% cumulative redeemable first preferred shares	\$79,188	
Transfer to capital redemption reserve fund	75,000	154,188
Balance at November 30, 1963		\$8,505,258

Statement of Capital Redemption Reserve Fund

Year ended November 30, 1963

Balance at November 30, 1962	\$300,000
Add transfer from retained earnings re redemption of preferred shares	75,000
Balance at November 30, 1963	\$375,000

The accompanying notes form an integral part of the financial statements.

PEMBINA PIPE LINE LTD.

Notes to Financial Statements

November 30, 1963

1. Funded debt:	1963	1962
First mortgage bonds:		
4¼% serial bonds, series "A":		
Authorized and issued (Maturing as to \$400,000 on December 1, in each year)	\$ 3,500,000	\$ 3,500,000
Less redeemed and cancelled	2,300,000	2,200,000
	1,200,000	1,300,000
4¾% 17-year bonds, series "A", due December 1, 1971:		
Authorized and issued	4,000,000	4,000,000
Less redeemed and cancelled	1,441,000	1,265,500
	2,559,000	2,734,500
4½% bonds, series "B", due October 1, 1973:		
Authorized and issued	3,125,000	3,125,000
Less redeemed and cancelled	1,248,000	1,060,000
	1,877,000	2,065,000
6% bonds, series "C", due December 1, 1974:		
Authorized and issued	2,400,000	2,400,000
Less redeemed and cancelled	568,000	568,000
	1,832,000	1,832,000
	7,468,000	7,931,500
Debentures:		
5% sinking fund debentures, series "A", due December 1, 1972:		
Authorized and issued	2,000,000	2,000,000
Less redeemed and cancelled	605,500	528,500
	1,394,500	1,471,500
5% sinking fund debentures, series "B", due October 1, 1974 (conversion privilege expired):		
Authorized and issued	1,400,000	1,400,000
Less converted into common stock and redeemed and cancelled	258,000	191,000
	1,142,000	1,209,000
6% convertible sinking fund debentures, series "C", due December 1, 1975 (Note 4):		
Authorized and issued	720,000	720,000
Less converted into common stock and redeemed and cancelled	78,500	78,000
	641,500	642,000
	3,178,000	3,322,500
Total funded debt	10,646,000	11,254,000
Deduct sinking fund payments due within one year (Note 6)	846,000	362,000
Funded debt less current maturities	9,800,000	10,892,000
Deduct securities purchased to meet other than current maturities	225,500	62,500
	\$ 9,574,500	\$ 10,829,500

2. In accordance with the Income Tax Act the company is permitted, for tax purposes, to claim depreciation in amounts other than those provided in its accounts and also to deduct the cost of petroleum and natural gas leases. Accordingly temporary tax savings of \$2,511,620 have been effected (of which \$164,801 is applicable to the current year) and have been treated in the accounts as a charge against earnings and a credit to deferred taxes on income.
3. The company may at its option redeem the whole or any part of the 5% cumulative redeemable first preferred shares on not less than 30 days notice at par value plus a premium of 3½% to December 1, 1964 and thereafter at a reducing premium to December 1, 1972, after which no premium is payable upon redemption.
4. The 6% convertible sinking fund debentures, series "C", carry a conversion privilege exercisable on or before December 1, 1965 entitling the holders thereof to exchange each \$500 principal amount of said debentures for 55 common shares of the company.
5. The trust deeds securing the first mortgage bonds and the debentures place certain restrictions upon the payment of dividends on the common shares of the company and upon the redemption or repayment of any capital stock.
6. At November 30, 1963 the sinking fund payments due within one year have been reduced by \$250,000, being the aggregate principal amount of securities delivered to the Trustee in advance of the sinking fund requirements for the following year.

Statement in accordance with Section 122(6) of The Companies Act (Alberta)

The company has three subsidiary companies all of which were inactive during the year ended November 30, 1963. All of the operations of these subsidiary companies have been reflected in the accounts of Pembina Pipe Line Ltd.

 Director

 Director

Auditors' Report

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

309 EIGHTH AVENUE WEST
CALGARY, ALBERTA

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Pembina Pipe Line Ltd. as of November 30, 1963 and the statements of earnings, retained earnings and capital redemption reserve fund for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and statements of earnings, retained earnings and capital redemption reserve fund are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company at November 30, 1963 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
December 23, 1963

Peat, Marwick, Mitchell & Co.

Chartered Accountants

PEMBINA PIPE LINE LTD.

Directors

A. D. ARMOUR *Toronto, Ontario*
E. CONNELLY *Calgary, Alberta*
E. W. COSTELLO *Calgary, Alberta*
J. P. GALLAGHER *Calgary, Alberta*
F. C. MANNIX *Calgary, Alberta*
A. D. NESBITT *Montreal, Quebec*
C. J. OATES *Calgary, Alberta*

Officers

F. C. MANNIX *Chairman of the Board*
E. CONNELLY *President and Treasurer*
E. W. COSTELLO *Vice-President*
J. P. GALLAGHER *Vice-President*
H. BOOTH *General Manager and Controller*
K. L. PERRY *Secretary and General Counsel*

BANKERS *The Royal Bank of Canada*
Calgary, Alberta

TRANSFER AGENTS *The Montreal Trust Company*
AND REGISTRARS *Calgary, Alberta*

SOLICITORS *Chambers, Saucier, Jones, Peacock,*
Black, Gain & Stratton
Calgary, Alberta

AUDITORS *Peat, Marwick, Mitchell & Co.*
Calgary, Alberta

HEAD OFFICE:
805 - 8th AVENUE S.W.,
CALGARY, ALBERTA

FIELD OFFICE:
P.O. BOX 330
DRAYTON VALLEY, ALBERTA

